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After-service health insurance: medical and dental reserve funds

Report of the Secretary-General

I. Introduction

1. The Secretary-General, in his report on liabilities and proposed funding for after-service health insurance benefits (A/64/366) recommended, inter alia, approval for the United Nations to move away from financing such benefits on a pay-as-you-go basis and to adopt a funding strategy ensuring that adequate funds are systematically put aside to meet the cost of current and future liabilities. Three funding alternatives were set out in the report. The recommended alternative included provision for a one-time initial infusion of funds, of which $83.1 million was to be transferred from the existing medical and dental reserves.

2. Having considered the above-mentioned report of the Secretary-General and the related report of the Advisory Committee on Administrative and Budgetary Questions (A/64/7/Add.4), the General Assembly, in its resolution 64/241, requested the Secretary-General to continue to validate the accrued liabilities with the figures audited by the Board of Auditors and to submit to it at its sixty-seventh session a report thereon, addressing also additional issues related to managing after-service health insurance liabilities.

3. In addition, the General Assembly, in section XI of its resolution 64/245 on special subjects relating to the proposed programme budget for the biennium 2010-2011, decided to revert to the issue of the $83.1 million from the medical and dental reserve funds included in the proposal of the Secretary-General on the funding of after-service health insurance liabilities and requested the Secretary-General to provide the Assembly at its sixty-fifth session, with information on the composition of those reserve funds. The present report provides the additional information requested in resolution 64/245.

* A/65/150.

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II. Health insurance reserve funds

4. The United Nations maintains health insurance reserves as premium stabilization reserves for each of its self-insured plans essentially in order to manage large fluctuations in premium requirements. Those reserves are used to smooth out premium increases so that unusually high claims experienced in a given year do not lead to unusually high premium increases. The health insurance reserve funds also serve to meet unanticipated catastrophic claim requirements, when needed. The reserve balances represent an amalgam of contributed funds and related investment income that have accumulated over a period of more than 20 years, based on contributions made by staff and retirees; the United Nations and other participating United Nations entities[1] (collectively "plan contributors") under various types of assessed and extrabudgetary funds and under various health plans.

5. The medical and dental reserves continue to be maintained in accordance with prudent financial practices, taking into account insurance industry standards which provide that health insurance reserves should be equivalent to about three to four months of claims. Those reserve balances are the result of health insurance contributions made by plan contributors at different weightings over time, based on staffing levels and the programme of work of the related United Nations entities. They have increased when health claims were lower than expected, and from interest income on reserve balances; and they have decreased in years when claims were higher than expected. For example, in the case of the Empire Blue Cross reserve, the balance has been depleted to below the industry standard because of the claims experienced in recent years.

6. Health insurance reserve accumulations under the self-insured Medical Insurance Plan for Locally Recruited Staff at Designated Duty Stations Away from Headquarters are attributable to contributions made by the United Nations and its covered staff and retirees since the inception of the plan, in 1987, whenever health claims were lower than premium collections. Covered staff over the years have worked under the regular budget (primarily local staff at the regional commissions and the special political missions) and extrabudgetary funding (primarily local staff at the United Nations Office at Nairobi, the United Nations Environment Programme and the United Nations Human Settlements Programme (UN-Habitat)) and in peacekeeping operations. The Medical Insurance Plan reserve therefore represents contributions that were received from all those funding sources, with the amounts attributable to a given fund type dependent upon the staffing distribution, which has changed over time, plus related investment income.

III. Composition of the $83.1 million

7. As noted above, health insurance reserve amounts under each health insurance plan have accumulated over many years from plan contributors representing multiple funding sources. While the reserve amounts are attributable to these funding sources, it is not possible to accurately allocate the reserve fund accumulations among the individual funding sources because staff of all fund types have participated in the plans at various weightings over time, as influenced by the

[1] Primarily the United Nations Development Programme, the United Nations Office for Project Services, the United Nations Population Fund and the United Nations Children's Fund.

programme of work of the United Nations and the participating funds and programmes, and because health insurance data have not been, and are not, maintained by funding source. In addition, reserve fund accumulations have differed from year to year and from plan to plan, with individual staff and retirees having at times moved their coverage between the available plans owing to changes in their duty station or residence or for other reasons. Staff have also transferred employment between the United Nations and the funds and programmes while continuing their coverage under the health plans administered by Headquarters. These elements further complicate the issue, making an accurate allocation of reserves funding source impossible.

8. The primary purpose of the health insurance reserve funds is for premium stabilization. This means that the reserves, by their very nature, are applied to existing plan contributors in accordance with current sources of funding. For that reason, the United Nations uses a "premium holiday" to periodically distribute excess reserve amounts to all funding sources on the basis of current plan participant data. This process does not take into account the historic contribution levels of the various funding sources. Instead, by using a premium holiday, all funding sources share in the distribution of reserve funds on the basis of the distribution of current health insurance plan contributors. This has been and continues to be considered the most equitable means of returning excess health insurance reserve funds to all the funding sources. As such, it is contemplated that this approach should be used to return a part of the $83.1 million portion of the health insurance reserve funds to the various funding sources before the end of 2010.

9. Given the lack of a more accurate allocation process, the use of a premium holiday is considered the best approach for determining the composition of health insurance reserve accumulations. By using the approach outlined above, the estimated composition of the $83.1 million of reserve funds across funding sources is as set out below (see annex). It should be noted that the $83.1 million does not include any portion of the Empire Blue Cross reserve owing to the very low level of that reserve.

Annex

Estimated composition of $83.1 million health insurance reserve amounts

(Thousands of United States Dollars)

		Composition by funding source						
		Staff and retirees' share (Contributions by active and retired staff of the United Nations and other entities of the common system	*Organization share (United Nations and others)*					
Health plan	*Composition by health plan*		*Regular budget*	*Peacekeeping accounts*	*Extrabudgetary*[a]	*Total United Nations*	*Other United Nations entities*[b]	*Total Organization Share (United Nations and other entities)*
Aetna	32 700.0	8 992.5	13 864.8	2 877.6	1 536.9	18 279.3	5 428.2	23 707.5
Cigna	1 400.0	477.5	469.6	121.8	74.2	665.6	256.9	922.5
Van Breda	14 000.0	7 000.0	1 579.2	1 985.2	406.0	3 970.4	3 029.6	7 000.0
Medical Insurance Plan	35 000.0	7 630.0	6 062.0	18 641.0	2 667.0	27 370.0	0.0	27 370.0
Total	**83 100.0**	**24 100.0**	**21 975.6**	**23 625.6**	**4 684.1**	**50 285.3**	**8 714.7**	**59 000.0**

[a] Includes trust funds, technical cooperation and special funds.

[b] Primarily UNDP, UNFPA, UNOPS and UNICEF.

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